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Legal Services Corporation

Inspector General  
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June 12, 2012

Mr. David G. Hall  
Executive Director  
Texas RioGrande Legal Aid  
300 South Texas Boulevard  
Weslaco, Texas 78596

Dear Mr. Hall:

Enclosed is the Office of Inspector General's (OIG) final report of our audit on Selected Internal Controls at Texas RioGrande Legal Aid (TRLA). The OIG has reviewed your comments on the findings and recommendations in the draft report and consider your proposed actions responsive to Recommendations 1, 2, and 5 through 8. The OIG considers TRLA's planned actions to address Recommendation 3 as partially responsive and proposed actions on Recommendation 4 as nonresponsive. Therefore, Recommendations 3 and 4 will be referred to LSC management for resolution.

The OIG considers all eight recommendations as open until notified in writing that all actions are completed. The full text of your comments is attached to the report as an Appendix.

Our thanks to you and your staff for the cooperation and assistance provided to us.

Sincerely,

Jeffrey E. Schanz  
Inspector General

Enclosure

cc: James Sandman  
President, Legal Services Corporation

**LEGAL SERVICES CORPORATION  
OFFICE OF INSPECTOR GENERAL**

**REPORT ON SELECTED INTERNAL  
CONTROLS**

**TEXAS RIOGRANDE LEGAL AID, INC.**

**RNO 744100**

**Report No. AU 12-03**

June 2012

[www.oig.lsc.gov](http://www.oig.lsc.gov)

## **EXECUTIVE SUMMARY**

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Texas RioGrande Legal Aid (grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's main office in Weslaco, Texas, its branch offices in Austin, El Paso and San Antonio, Texas, and Nashville, Tennessee, and at LSC headquarters in Washington, DC. Six separate on-site visits were conducted from May 2010 through January 2011. Documents reviewed pertained to the period January 1, 2009 through Jun 15, 2010.

The grantee's internal controls need to be strengthened. While many of the controls were generally adequately designed and properly implemented as the controls related to specific grantee operations and oversight, some controls need to be strengthened and formalized in writing. The grantee needs to place more emphasis on establishing, documenting, and enforcing all internal controls.

Grantee disbursements tested generally were adequately supported and allowable. The grantee's current practices involving internal management reporting and budgeting were generally in accordance with the LSC's Fundamental Criteria. Internal controls over employee benefits and reimbursements were generally adequate. Policies over employee benefits were in writing and adhered to.

The cost allocation system needs to be strengthened. Specifically, the cost allocation system was not adequately documented. Non-personnel central office administrative and management overhead expenses were not allocated to the Public Defender Programs resulting in LSC funds possibly subsidizing prohibited activities. The method used to allocate costs for six separate migrant grants was not based on actual work conducted in each of the six service areas.

Also, the grantee needs to enforce policies and procedures for credit card purchases, filing of travel vouchers, and obtaining prior approval for travel. Policies and procedures need to be fully developed, documented, and implemented relating to soliciting and awarding contracts, reimbursing employees for cell phones, and prohibiting the use of LSC funds to purchase alcoholic beverages.

The OIG made eight recommendations. Three recommendations address the need to document the cost allocation system; ensure that front office costs are allocated to the grantee's Public Defender Programs; and develop a cost allocation system for migrant grants that accurately accounts for the expenditure of LSC funds for each grant and ensures that LSC funds provided are spent for services applicable to the respective service area. Two recommendations address the need to enforce policies in place for credit card purchases; require

the filing of travel vouchers; and obtain and document supervisory approval prior to travel. Finally, three recommendations suggest that written policies and procedures be put in place for contracting and consulting agreements; the use and reimbursement for cell phones and other electronic devices; and, prohibiting the use of LSC funds to purchase alcoholic beverages.

### **Summary of Grantee Comments:**

Grantee management generally agreed with six of the eight recommendations. Management disagreed with Recommendations 3 and 4.

Grantee management disagreed with Recommendation 3, but stated it will seek LSC approval of how it currently operates the Southern Migrant Legal Services (SMLS) program. Grantee management stated that because of the nature and the relatively small amount of the grants it would be "...virtually impossible to guarantee that the grant in any given state in any given year will exactly match the operations and service provided in that state." Grantee management stated that it will request LSC management approval to pool the funding for the migrant grants.

As for Recommendation 4, grantee management did not cite any corrective action planned with regard to the first part of the recommendation, which was to ensure that credit card receipts are submitted. Grantee management responded to the second half of the recommendation by stating that the Executive Director adds adequate explanatory information on the credit card billing to support his charges, but he does not file a travel reimbursement form because he does not seek reimbursement for his travel expenses. However, the Executive Director would file a travel reimbursement request if he did seek such reimbursement.

### **OIG Overall Evaluation of Grantee's Comments:**

The OIG considers grantee management planned actions to be responsive to six of the eight recommendations. The OIG considers the grantee's response to Recommendation 3 as partially nonresponsive and to Recommendation 4 as nonresponsive, and will refer the two recommendations to LSC management for resolution. The OIG considers all eight recommendations open.

Grantee management stated that it planned to address Recommendation 3 by requesting that LSC management approve the pooling of the individual state migrant funds for the six-state region known as Southern Migrant Legal Services (SMLS) that is based out of Nashville, Tennessee. The OIG does not consider the grantee's proposal as entirely responsive to the recommendation. The grantee's proposal does not address the finding that the grantee's allocation methodology for SMLS is inadequate. Regardless of whether LSC management approves pooling of the funds in question, the grantee needs to implement an acceptable allocation methodology for those funds. Each of the six grants is competed for separately and awarded separately. As such, each grant is required

to be accounted for separately. Recommendation 3 will remain open and will be forwarded to LSC management for resolution.

Grantee management's proposed action to Recommendation 4 does not address the need to ensure that credit card receipts are submitted by all staff and that all employees, including the Executive Director, file a travel voucher as required by the grantee's policies. The grantee's employee handbook provides no exceptions for filing a voucher whether the expense is paid to the employee or to a vendor. The OIG considers grantee management actions as nonresponsive to Recommendation 4 and will refer the recommendation to LSC management for resolution.

## TABLE OF CONTENTS

INTRODUCTION.....	1
BACKGROUND .....	1
OBJECTIVE .....	3
SCOPE AND METHODOLOGY .....	3
OVERALL EVALUATION .....	4
AUDIT FINDINGS .....	4
Cost Allocation .....	4
Basic Field Grant Cost Allocation.....	5
Recommendation 1 .....	5
Recommendation 2 .....	5
Grantee Comments .....	5
OIG Evaluation of Grantee Comments.....	6
Migrant Grant Cost Allocation .....	6
Recommendation 3 .....	6
Grantee Comments .....	6
OIG Evaluation of Grantee Comments .....	7
Credit Card Transactions .....	7
Recommendation 4 .....	8
Grantee Comments .....	8
OIG Evaluation of Grantee Comments.....	8
Prior Approval for Out-of-Town Travel .....	9
Recommendation 5 .....	9
Grantee Comments .....	9
OIG Evaluation of Grantee Comments .....	9
Documenting Policies and Procedures .....	9
Contracts and Consulting Agreements .....	10
Cell Phones .....	10
Prohibited Purchases .....	11
Recommendation 6.....	11
Recommendation 7 .....	11
Recommendation 8.....	11
Grantee Comments.....	11
OIG Evaluation of Grantee Comments.....	11

### APPENDIX I – GRANTEE MANAGEMENT COMMENTS

## **INTRODUCTION**

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Texas RioGrande Legal Aid (grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's main office in Weslaco, Texas, its branch offices in Austin, El Paso and San Antonio, Texas, and Nashville, Tennessee, and at LSC headquarters in Washington, DC. Six separate on-site visits were conducted from May 2010 through January 2011. Documents reviewed pertained to the period January 1, 2009 through Jun 15, 2010.

In accordance with the Legal Services Corporation Accounting Guide for LSC Recipients (2010 Edition) (Accounting Guide), Chapter 3, an LSC grantee "...is required to establish and maintain adequate accounting records and internal control procedures." The Accounting Guide defines internal control as follows:

[T]he process put in place, managed and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:

1. safeguarding of assets against unauthorized use or disposition;
2. reliability of financial information and reporting; and
3. compliance with regulations and laws that have a direct and material effect on the program.

Chapter 3 of the Accounting Guide further provides that each grantee "must rely upon its own system of internal accounting controls and procedures to address these concerns" such as preventing defalcations and meeting the complete financial information needs of its management.

## **BACKGROUND**

Texas RioGrande Legal Aid was established in 1970 as Texas Rural Legal Aid to provide legal aid to nine counties in southern Texas. By 1977, it became the provider for migrant legal services on a state-wide basis. In 2002, it merged with four other Texas legal aid programs, and in 2004 took on its current name. As of 2010, the grantee maintained 15 offices throughout the state with program headquarters located in Weslaco. The grantee also operates the Southern Migrant Legal Services Project (SMLS) that serves migrant farm workers in Alabama, Arkansas, Kentucky, Louisiana, Mississippi and Tennessee. SMLS operates out of Nashville, Tennessee and is funded through individual migrant grants for each state served.

The grantee is funded principally by LSC and the Texas Access to Justice Foundation. The grantee also receives smaller grants from a variety of federal, state and local agencies, including the United States Department of Justice, Department of Housing and Urban Development, and Internal Revenue Service. Other funding comes from individual donations and grants from various foundations and corporations. In addition, it receives funding from the Texas Task Force on Indigent Defense and eight counties to provide public defender services in criminal cases through offices in Del Rio, Raymondville and Beeville.

LSC Basic Field Migrant Grant (migrant grant) is basic field funding that is specifically granted to address the legal needs of migrant farm workers. For states receiving migrant grants, LSC's funding formula attempts to identify the size of the migrant farm worker poverty population in the state. Once the population is identified, money is allocated, in the form of a migrant grant, from the basic field grant(s) for that state at the same per capita rate as the basic field grant. States with a migrant grant receive the same amount of total LSC basic field funding that would have been received if there was no migrant grant. The only difference is that states with migrant grants have funds specifically allocated to address the legal needs of migrant farm workers. Thus, funding for SMLS comes from a portion of LSC's basic grant funds awarded to the aforementioned six states through migrant grants. According to the Executive Director, the grantee supplements SMLS funding with LSC funds from the Texas migrant program when a SMLS case involves a Texas resident or if workers were hired in Texas.

According to the audited financial statements for the grantee's fiscal year ended September 30, 2010, the grantee received over \$13.5 million from LSC for that period. This amount included over \$11.6 million for the basic grant, \$1.5 million for Texas migrant grant, \$35,408 for Native American grant, \$22,000 for a Technology Initiative Grant and \$341,895 in migrant grants for the SMLS program. The migrant grant amount by state for the SMLS program is listed below:

- Alabama        \$37,182
- Arkansas       \$89,321
- Kentucky       \$48,096
- Louisiana       \$31,122
- Mississippi    \$64,495
- Tennessee     \$71,679

According to its audited financial statements for the fiscal year ended September 30, 2010, the grantee also received over \$11.9 million from other sources, primarily the Texas Access to Justice Foundation.



## **OBJECTIVE**

The overall objective was to assess the adequacy of selected internal controls in place at the grantee as the controls related to specific grantee operations and oversight, including program expenditures and fiscal accountability. Specifically, the audit evaluated selected financial and administrative areas and tested the related controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations.

## **SCOPE AND METHODOLOGY**

To accomplish the objective, controls over disbursements, internal management reporting and budgeting, employee benefits and reimbursements were reviewed and tested to ensure the controls were adequately designed and operating as intended. To obtain an understanding of the internal controls over these areas, grantee policies and procedures were reviewed, including manuals, guidelines, memoranda, and directives setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework and management and staff were interviewed as to their knowledge and understanding of the processes in place. We assessed the reliability of computer generated data provided by the grantee by reviewing source documentation for the entries selected for review. We determined that the data were sufficiently reliable for the purposes of this report.

To test the controls and the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. The sample was taken from the period January 1, 2009, through June 15, 2010, and comprised 114 transactions totaling \$88,680. To assess the appropriateness of expenditures, we reviewed invoices, vendor lists, and general ledger details. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

To evaluate internal controls over internal management reporting and budgeting, the grantee's system and processes were compared to those detailed in the Accounting Guide, Chapter 3, Section 3-5, Fundamental Criteria. Controls over employee benefits and reimbursements were reviewed by examining the Collective Bargaining Agreement and other personnel policies and practices, and by testing a judgmentally selected sample of employee reimbursements as part of the disbursements testing.

This review was limited in scope and was not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations.

Six separate on-site visits were conducted during the period May 2010 through January 2011. Audit work was conducted at the grantee's main office in Weslaco, Texas, its branch offices in Austin, El Paso and San Antonio, Texas, and Nashville,

Tennessee, and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2009 through Jun 15, 2010.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

## **OVERALL EVALUATION**

The grantee's internal controls need to be strengthened. While many of the controls were generally adequately designed and properly implemented as the controls related to specific grantee operations and oversight, some controls need to be strengthened and formalized in writing. The grantee needs to place more emphasis on establishing, documenting and enforcing all internal controls.

Grantee disbursements tested generally were adequately supported and allowable. The grantee's current practices involving internal management reporting and budgeting were generally in accordance with the LSC's Fundamental Criteria. Internal controls over employee benefits and reimbursements were generally adequate. Policies over employee benefits were in writing and adhered to.

However, the cost allocation system needs to be strengthened, as the cost allocation system was not adequately documented. Non-personnel central office administrative and management overhead expenses were not allocated to the Public Defender Programs resulting in LSC funds possibly subsidizing prohibited activities. The method used to allocate costs for six separate migrant grants was not based on actual work conducted in each of the six service areas.

Also, the grantee needs to enforce policies and procedures for credit card purchases, filing of travel vouchers, and obtaining prior approval for travel. Policies and procedures need to be fully developed, documented, and implemented relating to soliciting and awarding contracts, reimbursing employees for cell phones, and prohibiting the use of LSC funds to purchase alcoholic beverages.

## **AUDIT FINDINGS**

### **COST ALLOCATION**

Cost allocation systems needed to be improved. The cost allocation system for the Basic Field Grant was not fully documented and did not allocate a share of front office expenses to the grantee's Public Defender Programs. Migrant grant costs were not

allocated based on actual expenditures made for each of the six state service areas but rather on the percentage of each grant to the total amount of the migrant grants.

- **Basic Field Grant Cost Allocation**

The grantee's cost allocation methodology was not fully documented in its accounting manual as required by LSC's Accounting Guide<sup>1</sup>. During our audit, the Chief Financial Officer (CFO) provided the OIG with a written description of the process, but acknowledged that the written description had not been approved by the board of directors. While the provided information was a general description of an allocation system, it did not specifically detail how the grantee allocates costs to its various grants. In addition, based on discussions with the CFO and a review of information provided by the CFO, the grantee was not allocating non-personnel central office administrative and management overhead expenses to its Public Defender Programs, units engaged in activity prohibited from receiving or using LSC funds. These expenses included the overhead costs associated with operating the central office, i.e., rent, utilities, supplies, training, etc. The vast majority of the central office non-personnel administrative overhead costs were allocated to LSC funds. As a result, LSC funds may have been used to subsidize prohibited activities.

We could not readily determine from the information provided, the dollar amount of non-personnel central office administrative and management overhead expenses. As such, we could not estimate the amount of these costs that should have been allocated to the Public Defender Programs. Therefore, we are not processing a questioned cost, but are forwarding this issue to LSC management for further review and action.

**Recommendations:** The Executive Director should ensure:

Recommendation 1: that the allocation system is fully documented.

Recommendation 2: that the allocation system includes a methodology to allocate a fair share of the central office costs to the Public Defender Programs.

**Grantee Comments:** The Executive Director stated that "the cost allocation measures are being reviewed and edited, and will be included in the TRLA accounting policies and procedures manual. They will also be presented to the Board of Directors when that process is completed." The Executive Director further stated that "TRLA will assure that all indirect non-personnel costs for the administration of the defender programs will be allocated to those grants or to unrestricted funds."

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<sup>1</sup> During a portion of the audit, the previous LSC Accounting Guide was in effect. The revised Accounting Guide for LSC Recipients (2010 Edition) became effective on August 23, 2010, and requires that the cost allocation methodology be in writing.

**OIG Evaluation of Grantee Comments:** Grantee management planned actions are responsive to Recommendations 1 and 2. The recommendations will remain open until all grantee actions are completed and the OIG is notified in writing.

- **Migrant Grants Cost Allocation System**

The cost allocation system for the migrant grants was not based on the expenditures made providing services to clients in each service area. Rather, costs were allocated based on the percent of each grant to the combined total of the six migrant grants received. In effect, the six migrant grants were being treated as a single grant with one service area. Costs are not allocated based on the actual time SMLS attorneys and paralegals spend on cases and costs associated with migrant activities in each state, which we believe would more accurately reflect the migrant services provided to each state service area. The SMLS Branch Manager acknowledged that costs are not allocated based on actual time spent, explaining that one cannot plan or expect to have funding match services on an annual basis. However, because each grant is competed separately for work that pertains to a specific state service area and each migrant grant has its own grant documents and grant assurances, each migrant grant is required by LSC to be properly and separately accounted for.

According to grant competition documents for the last two 3-year cycles (calendar years 2007 and 2010), the migrant grants for each state service area were not competed as a six-state block; rather, they were competed independently for each state service area. We found no agreement with LSC or representation by LSC that would allow these funds to be pooled as one fund, or to subsidize work in one state service area with funds from another. As a result each grant was not being properly and separately accounted for and there was no assurance that each service area received its allotted amount of LSC funding.

**Recommendation 3:** The Executive Director should ensure that a cost allocation is developed that accurately accounts for the expenditure of LSC funds for each migrant grant and that the LSC funds provided are expended for services applicable to the respective service area.

**Grantee Comments:** Grantee management disagreed with the recommendation and stated it would seek LSC management approval to pool the migrant funds of the six-state region operating as the Southern Migrant Legal Services (SMLS) program. Grantee management further stated that "...because of the patterns of migrant agricultural employment, the nature of migrant legal services, and the *de minimis* size of the individual state's grants, it is virtually impossible to guarantee that the grant in any given state in any given year will exactly match the operations and services provided in that state." The grantee acknowledges that it has pooled the funding of the six states that comprise SMLS since 2001 to cover services to migrant agricultural workers employed in the region. Grantee management contends that it could not operate SMRLS effectively without pooling funds and will request LSC management approve that arrangement.

**OIG Evaluation of Grantee Comments:** The OIG considers the grantee's response as partially responsive. Grantee management stated that it planned to address Recommendation 3 by requesting that LSC management approve the pooling of the individual migrant funds from the six states that comprise the SMLS program. The OIG considers the grantee's proposal as only partially responsive to the recommendation. The grantee's proposed actions do not address the portion of the recommendation pertaining to developing a cost allocation that accurately accounts for the expenditure of LSC funds for each migrant grant and that the LSC funds provided are expended for services applicable to the respective service area. Regardless of whether LSC management approves pooling of the funds in question, the grantee needs to implement an acceptable allocation methodology to account for and allocate those funds by grant. Each of the six grants is competed for separately and awarded separately. As such, each grant is required to be accounted for separately. Properly monitoring costs through an acceptable allocation system provides grantee management with the necessary information to properly manage its activities in the individual states and helps ensure grant funds from one state are not used to subsidize the migrant work in another state. Recommendation 3 will remain open and will be forwarded to LSC management for resolution.

## **CREDIT CARD TRANSACTIONS**

Receipts for credit card purchases were missing. A test of disbursements noted that 27 of 38 charges on 3 credit card statements did not have receipts attached from the vendors. The 27 charges without receipts amounted to \$2,091 and receipts were missing for 8 of 10 charges for meals, and for 19 of 28 other non-dining charges. Grantee senior management was responsible for all 38 purchases, of which 24 were travel related.

The grantee's policy on meals requires that when an employee is authorized to represent the grantee at a breakfast, luncheon or dinner meeting, reimbursement is provided if receipts are presented. As for travel reimbursements, the grantee requires that receipts be attached to travel vouchers depending on the type of travel undertaken.

While the Executive Director did not provide receipts for his purchases, the credit card bills did contain abbreviated, handwritten notes describing the charges. These notes, however, were somewhat cryptic, using abbreviations, and sometimes difficult to read. During our discussion with the CFO about the Executive Director's credit card charges, we were told there were no travel expense reports for the Executive Director. Nevertheless, we were able to generally satisfy ourselves that the charges were business related.

We do have concerns about the overall control environment. Senior management is responsible for establishing the internal controls, ensuring that they are functioning as

designed, and enforcing their use. When senior management overrides the controls established or does not follow the control requirements established, the entire control environment is weakened and can signal to the remainder of the staff that the controls are not important and need not be followed. A weakened control environment provides increased opportunities for fraud.

Recommendation 4: The Executive Director should ensure that policies and procedures are followed by staff members, including ensuring that credit card purchases are supported by receipts and that travel reports are filed as required for all travel.

**Grantee Comments:** Grantee management stated that the Executive Director in reviewing the credit card statement adds explanatory information where necessary to allow an auditor to evaluate the appropriateness of the expense and its allocation. The response further states that all of this information that would be noted in a travel reimbursement form is noted on the credit card statement. Grantee management then stated that the Executive Director does not file a travel voucher because he does not seek reimbursement for his travel expenses, but that he would file a travel reimbursement request if he did seek such reimbursement.

**OIG Evaluation of Grantee Comments:** Grantee management proposed action is not responsive to the recommendation. The proposed action does not address the need to ensure that credit card receipts are submitted by all staff and that all employees, including the Executive Director, file a travel voucher as required. When senior management overrides or exempts itself from the organization's policies, the overall control environment is weakened and may signal to the staff that it is not important to follow all policies. The grantee's employee handbook requires all travelers to file a Travel Authorization and Advance Request for out of town travel and a Travel Expense Report or a Local Travel Expense Report. The handbook provides no exceptions for filing a voucher whether the expense is paid to the employee or to a vendor.

The response does not require the Executive Director to file travel vouchers when he incurs official business expenses. Grantee management agrees that a voucher should be filed when reimbursement is requested, but then argues that the Executive Director does not seek reimbursement for out-of-pocket travel expenses and thus does not need to file a travel voucher. The OIG disagrees with exempting the Executive Director from filing a travel voucher. While the Executive Director does not seek to be personally reimbursed for some charges related to his official travel, he is, in fact, having the grantee pay other expenses. It is irrelevant whether a travel expense results in reimbursing the individual or whether the payment is made directly to a vendor for a travel charge made by that individual; the charge is a travel expense and needs to be accounted for as such. The action proposed in response to Recommendation 4 is not adequate and the OIG considers this recommendation open. The OIG considers grantee management actions as nonresponsive to Recommendation 4 and will refer the recommendation to LSC management for resolution.

## **PRIOR APPROVAL FOR OUT-OF-TOWN TRAVEL**

The grantee could not provide documentation of supervisory authorization prior to employees embarking on out-of-town travel as required by the grantee's written travel policy. Our test of disbursements included 46 reimbursements for employee out-of-town travel. We noted that none of the vouchers for out-of-town travel included documentation of supervisory approval, and the grantee was unable to provide evidence of prior approval.

In response to the question whether out-of town travel was being approved before each trip as required by the employee handbook, the CFO stated that the traveler's immediate supervisor provides approval via email. The CFO further stated that the grantee does not print out the emails because it is trying to reduce the amount of paper filed as it moves to an electronic system of documentation and payment.

The grantee's travel policy states that primary supervisors must approve in advance all out-of town travel but does not state how that approval should be documented. Even though the CFO states that prior approval is by email, a system has not been designed to ensure that all out-of-town travel approval is retained, either electronically or in documentary format, as evidence of supervisory approval and compliance with the grantee's travel policies. Requiring documentation of supervisory approval for staff travel prior to travel helps ensure that only authorized travel is reimbursed and reduces the potential for abuse.

Recommendation 5: The Executive Director should take action to ensure compliance with the grantee's policy on documenting supervisory approval prior to employees embarking on out-of-town travel.

Grantee Comments: Grantee management stated it will revise the policy to require prior written approval for out-of-town travel.

OIG Evaluation of Grantee Comments: The grantee's planned actions are responsive to Recommendation 5. The recommendation will remain open until all grantee management actions are completed and the OIG is notified in writing.

## **DOCUMENTING POLICIES AND PROCEDURES**

Some operating policies and procedures were not formally documented in the grantee's accounting manual and others were not adequately documented in the accounting manual. Moreover, even if documented, at times the policies and procedures were not followed. These areas included awarding contracts and consulting agreements, reimbursing the cost of cell phones, and prohibiting the use of LSC funds to purchase alcoholic beverages. While grantee management could verbally describe some procedures associated with each of these areas, the verbal

procedures were not adequate. As part of a robust internal control structure, each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the Fundamental Criteria contained in the LSC Accounting Guide, which requires that financial controls be established to safeguard program resources. The Government Accountability Office<sup>2</sup> in its guidance on internal control states all transactions and other significant events need to be clearly documented, and that the documentation requirements should appear in management directives, administrative policies, or operating manuals.

○ **Contracts and Consulting Agreements**

The grantee's documented contracting policies and procedures consisted of one sentence in the program's accounting manual. The one sentence required that "All contracts with consultants and other firms must have the signature of the Executive Director or the Director of Administration." During the audit, grantee management provided a revision to the contracting policy which added the requirement that consulting contracts may be entered into only after determining there is a need and that existing staff cannot perform the task. Even with the revision, the grantee's contracting policies were not sufficient. Specifically, the grantee's contracting policies did not address procedures to:

- solicit proposals or bids prior to entering into a contract that exceeds a specific dollar amount;
- fully document contracting actions by maintaining the bids received and the approvals given for each purchase above a reasonable level;
- document justifications for sole source purchases above a specified dollar amount;
- ensure that the governing body and all necessary funding source approvals are obtained prior to entering into contracts;
- include clearly defining services to be rendered in the written contract; and,
- document modifications to existing contracts.

○ **Cell Phones**

The grantee did not have formal written policies and procedures for cell phones, PDA devices and other technology products. The grantee has an informal policy that authorized staff members to be reimbursed for cell phone use and in some cases provide staff members with a cell phone. While most of the reimbursements were either \$50 or \$25 per month, three executives were reimbursed at a higher amount. Staff members participating in the program were instructed to provide a copy of their monthly cell phone bill so they could be reimbursed. According to the CFO, the grantee is currently developing a written cell phone and Personal Digital Assistant (PDA) policy.

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<sup>2</sup> GAO-01-131G – Internal Control Management and Evaluation Tool ED (2/01), Page 41.



- **Prohibited Purchases**

The grantee's accounting manual and employee handbook do not contain any prohibition regarding the purchase of alcoholic beverages using LSC funds. 45 CFR §1630.3 states that recipient expenditures should be reasonable and necessary for the performance of the grant. Also, the President of LSC issued a letter dated March 20, 2008, notifying grantees of the prohibition on purchasing alcoholic beverages, citing the guidance in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, and applying the prohibition to the use of LSC funds.

According to the CFO, the grantee does not condone alcohol purchases with LSC funds and reminders have been sent to all employees that LSC funds cannot be used to purchase alcoholic beverages. The CFO also noted that because the grantee is a large program its accounting office might not detect every instance of an improper purchase of this nature. While the accounting office may not detect each instance, formally documenting in policy manuals that the purchase of alcoholic beverages with LSC funds is prohibited will help ensure that purchases are not made in the first place.

**Recommendations:** The Executive Director should:

**Recommendation 6:** Develop written policies and procedures for contracts and consultant agreements in accordance with the Accounting Guide for LSC Recipients.

**Recommendation 7:** Develop written policies and procedures for controlling the use of cell phones and other electronic devices, including reimbursement policies for staff members using personal cell phones for business purposes.

**Recommendation 8:** Develop written policies and procedures that prohibit the use of LSC funds to purchase alcoholic beverages and implement those policies.

**Grantee Comments:** Grantee management stated that the grantee will revise its policies in these areas in accordance with the OIG recommendations.

**OIG Evaluation of Grantee Comments:** The grantee's actions are responsive to the recommendations which will remain open until all grantee actions are completed and the OIG is notified in writing.



DAVID G. HALL  
EXECUTIVE DIRECTOR

LAW OFFICES OF  
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April 23, 2012

Mr. Ronald D. Merryman  
Assistant Inspector General for Audit  
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3333 K. St., NW 3<sup>rd</sup> Floor  
Washington, D.C. 20007-3522

Re: Audit of Selected Internal Controls

Dear Mr. Merryman:

Enclosed is TRLA's response to your draft report. Feel free to let me know if you have any questions.

Sincerely,

TEXAS RIOGRANDE LEGAL AID, INC.

A handwritten signature in black ink that reads "David G. Hall". The signature is written in a cursive, slightly slanted style.

David G. Hall  
Executive Director

encl.: as noted  
cc: Anthony Ramirez

**Response of Texas RioGrande Legal Aid**  
**to the Draft Report on Selected Internal Controls of the**  
**Legal Services Corporation Office of Inspector General**  
**February 2012**

From May 2010 through February 2012, the Office of the Inspector General of the Legal Services Corporation conducted an audit of internal controls of the accounting systems of Texas RioGrande Legal Aid. During the two-year period of the audit, six on-site visits by OIG staff occurred and several thousands of pages of documents were reviewed. The audit concluded that “grantee disbursements tested generally were adequately supported and allowable,” that “internal management reporting and budgeting were generally in accordance with the LSC’s Fundamental Criteria,” that [i]nternal controls over employee benefits and reimbursements were generally adequate,” and that [p]olicies over employee benefits were in writing and adhered to.”

The draft report makes several recommendations for improvements to existing systems, and these observations and recommendations will be addressed in the following remarks:

**A. Basic Field Grant Cost Allocation**

The draft audit report acknowledges that the TRLA accounting system contains a written description of its cost allocation system for attributing costs and expenses to various grants, although a written description was not required by the LSC Accounting Guide until its revision six months after the OIG audit was initiated. The OIG believes that the written description did not provide sufficient detail of the cost allocation measures and that it had not been presented to the TRLA board of directors for its approval. TRLA’s written description follows the allocation criteria set out in the LSC accounting manual of 2010, and has been reviewed by TRLA’s independent auditor. There is no requirement in the LSC accounting guide that the board of directors approve allocation methods.

TRLA operates three public defender programs in its service area, providing representation in criminal cases through grants from state and/or county sources. Each of those grants contains an amount of funding for administrative costs. The draft audit report observes that some non-personnel costs for administrative activities in support of the PD program, such as space, utilities, and supplies, were not being properly allocated to the PD grants.

**Recommendation 1.** *That the allocation system is fully documented.* The cost allocation measures are being reviewed and edited, and will be included in the TRLA accounting policies and procedures manual. They will also be presented to the Board of Directors when that process is completed.

**Recommendation 2.** *That the allocation system includes a methodology to allocate a fair share of the central office costs to the public defender programs.* TRLA will assure that all indirect non-personnel costs for the administration of the defender programs will be allocated to those grants or to unrestricted funds.

#### **B. Migrant Grants Cost Allocation System**

In 2000, at the request of LSC and the executive directors of the migrant grantees in the states of Louisiana, Arkansas, Mississippi, Alabama, Tennessee and Kentucky, TRLA agreed to provide specialized migrant legal services in those states. The Corporation had been concerned that the small individual state grants, as low as \$31,000 per year, made it virtually impossible for a program to provide meaningful migrant legal services to a clientele that is very difficult, because of mobility and language barriers, to serve. TRLA agreed to pool the six grants beginning in 2001 and to operate a migrant program, dubbed "Southern Migrant Legal Services," to cover migrant agricultural workers employed in the region, many of whom resided and worked at least part of the time in Texas. Since TRLA applied for the migrant grants, no other entity has submitted a request to provide such services.

Migrant workers in the South often travel from state-to-state and are employed in any one location or state for relatively brief periods of time, sometimes for a few days, sometimes for a few weeks. It is not uncommon for such migrant workers to find employment in three or four of the SMLS states in a year, but whether they have an employment-related "case" is often more episodic. They may work for one crew leader in several different states for several different growers or packing sheds, or a family may migrate together, seeking employment wherever it may be found. Employment opportunities emerge and disappear annually; one state may have many jobs one year, but not the next.

Using the pooled funds, TRLA operates SMLS from an office in Nashville. Although the combined funds – now less than \$300,000 per year - only provides salaries and expenses for three attorneys, TRLA has generally been able to maintain at least four, and often five, attorneys in the Nashville office. The additional attorneys have been funded by Skadden Arps, Yale Limon, and Equal Justice Works fellowships, or by funding from the Texas migrant grant. Using those resources, TRLA has managed to provide some measure of service in each of the six states every year. For example, TRLA sends its paralegals and attorneys into each state every year to conduct outreach and community legal education and to make its services available throughout the region. However, because of the patterns of migrant agricultural employment, the nature of migrant legal services, and the *de minimis* size of the individual state's grants, it is virtually impossible to guarantee that the grant in any given state in any given year will exactly match the operations and services provided in that state.

Nevertheless, the OIG report suggests that each state's migrant grant should be accounted for separately and that funds from one state's migrant grant should not be used to "subsidize" migrants who worked in a neighboring state.

**Recommendation 3.** *The Executive Director should ensure that a cost allocation is developed that accurately accounts for the expenditure of LSC funds for each migrant grant and that the LSC funds provided are expended for services applicable to the respective service area.* Because of the impossibility of operating an effective multi-state regional migrant legal services program in the manner suggested by the draft report, TRLA will seek approval from the Legal Services Corporation to operate its Southern Migrant Legal Services program in a unified manner.

### **C. Credit Card Transactions**

TRLA senior management, including the Executive Director, uses an American Express card to pay for program-related expenses. Airfare, hotels, rental cars, and meals for attorney recruits are typical expenditures charged to the card. Each month, American Express submits to the Accounting Department an itemized bill listing each expense incurred during the billing period for each authorized employee. The bill includes the vendor, the date the expense was incurred, and the amount of the expense.

Other than items charged to the program credit card, the Executive Director does not request reimbursement for program-related expenditures, such as mileage and per diem during program travel. To properly document items charged to the American Express card, the ED has followed the recommendation of TRLA's independent auditor: he reviews a copy of the itemized bill each month and adds explanatory information where necessary to permit an auditor to evaluate the appropriateness of the expense or its allocation, e.g., travel destination and purpose of a trip, the purpose of a meeting where meal expenses were incurred and the attendees, etc. All of the information that would be included in a travel reimbursement form is noted on the copy of the AmEx statement; however, the ED does not submit a reimbursement form because he does not request reimbursement.

**Recommendation 4.** *The Executive Director should ensure that policies and procedures are followed by staff members, including ensuring that credit card purchases are supported by receipts and that travel reports are filed as required for all travel.* If the Executive Director requests reimbursement for program related travel or other expenses, he will submit the travel reimbursement reports recommended by the draft report.

### **D. Prior Approval for Out-of-Town Travel**

TRLA has a policy requiring an employee to obtain advance approval before incurring out-of-town travel expense, but there is no requirement that the approval be made in writing. If the employee fails to obtain prior approval and incurs travel expenses, those expenses may be disallowed if the primary supervisor refuses to grant approval. The OIG draft report suggests that this policy is inadequate, and that the policy should be amended to require prior *written* approval.

**Recommendation 5.** *The Executive Director should take action to ensure compliance with the grantee's policy on documenting supervisory approval prior to employees embarking on out-of-town travel. The ED will revise the policy to require prior written approval for out-of-town travel.*

**E. Documenting Policies and Procedures**

The OIG report suggests that TRLA needs additional written documentation on its policies regarding consultant contracts, personal cell phone reimbursement, and the purchase of alcoholic beverages with LSC funds.

**Recommendation 6.** *Develop written policies and procedures for contracts and consulting agreements in accordance with the Accounting Guide for LSC Recipients. TRLA will revise its policies in this area in accordance with the OIG recommendation.*

**Recommendation 7.** *Develop written policies and procedures for controlling the use of cell phones and other electronic devices, including reimbursement policies for staff members using personal cell phones for business purposes. TRLA will revise its policies in this area in accordance with the OIG recommendation.*

**Recommendation 8.** *Develop written policies and procedures that prohibit the use of LSC funds to purchase alcoholic beverages and implement those policies. TRLA will revise its policies in this area in accordance with the OIG recommendation.*